

**ALBIA MUNICIPAL WATERWORKS
ALBIA, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

June 30, 2004

**Peak & Gerdes, LLP
Certified Public Accountants
103 Benton Avenue East
Albia, Iowa 52531**

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-9
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	A 11
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	B 12
Notes to Financial Statements	13-17
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements	
and Changes in Balances - Budget and Actual (Cash Basis) -	
Proprietary Fund	19
Notes to Required Supplementary Information - Budgetary Reporting	20
Other Supplementary Information:	<u>Schedule</u>
Combining Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances - Proprietary Fund	1 22-24
Schedule of Indebtedness	2 25
Bond Maturities	3 26
Water Statistics	4 27
Independent Auditor's Report On Compliance and on Internal Control over	
Financial Reporting	28-29
Schedule of Findings	30

ALBIA MUNICIPAL WATERWORKS

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bob Russell	Chairman	April 2, 2009
John Scieszinski	Secretary	April 2, 2007
Jack Scieszinski	Trustee	April 2, 2005
Patty Stuchel	Office Manager	Indefinite
Vicki Kerr	Clerk	Indefinite

Albia Municipal Waterworks

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
103 BENTON AVENUE EAST
ALBIA, IOWA 52531

(641) 932-3295

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Albia Municipal Waterworks

We have audited the accompanying financial statements of the business type activities and each major fund of the Albia Municipal Waterworks, component unit of the City of Albia, Albia, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the Waterworks' basic financial statements listed in the table of contents. These financial statements are the responsibility of Waterworks' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities and each major fund of the Albia Municipal Waterworks, component unit of the City of Albia, Albia, Iowa as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 9, during the year ended June 30, 2004, the Waterworks' adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued a report dated July 1, 2004 on our consideration of the Albia Municipal Waterworks' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on page 7 through 9 and 19 through 20 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Albia Municipal Waterworks' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

July 1, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Albia Municipal Waterworks (Waterworks) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Waterworks financial statements, which follow.

Because the Waterworks is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Waterworks financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

Revenues of the Waterworks decreased 6%, or approximately \$70,000, from fiscal 2003 to fiscal 2004. Revenue bond proceeds decreased \$100,000.

Disbursements increased 2%, or approximately \$21,000, in fiscal 2004 from fiscal 2003.

The Waterworks total cash basis net assets decreased 2.9%, or approximately \$8,500, from June 30, 2003 to June 30, 2004.

The Waterworks refinanced 2 bond issues during the year resulting in a savings of several thousand dollars over the term of the bonds.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Waterworks financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the Waterworks as a whole and presents an overall view of the Waterworks finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Waterworks operations in more detail than the government-wide statement.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Waterworks budget for the year.

Other Supplementary Information provides detailed information about the Waterworks.

Basis of Accounting

The Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Waterworks are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE ALBIA MUNICIPAL WATERWORKS ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the Waterworks finances is, "Is the Waterworks as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the Waterworks net assets. Over time, increases or decreases in the Waterworks net assets may serve as a useful indicator of whether the financial position of the Waterworks is improving or deteriorating.

Fund Financial Statements:

Proprietary funds account for the Waterworks Enterprise Fund. Enterprise Funds are used to report business type activities.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The Waterworks cash balance decreased from a year ago, decreasing from \$292,000 to \$284,000. The analysis that follows focuses on the changes in cash balances

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)

	Year ended <u>June 30, 2004</u>
Receipts:	
Program receipts:	
Charges for service	\$ 686
General receipts:	
Unrestricted interest on investments	4
Miscellaneous	403
Sale of assets	<u>4</u>
Total receipts	<u>1,097</u>
Disbursements:	
Business type activities	<u>1,105</u>
Total disbursements	<u>1,105</u>
Increase (Decrease) in cash balance	(8)
Cash basis net assets beginning of year	<u>292</u>
Cash basis net assets end of year	<u>\$ 284</u>

Total business type activities receipts for the fiscal year were \$1.097 million compared to \$1.167 million last year. This decrease was due to \$100,000 of revenue bond proceeds in fiscal 2003. The cash balance decreased by approximately \$8,500 from the prior year. Total disbursements for the fiscal year decreased by 2% to a total of \$1.105 million.

BUDGETARY HIGHLIGHTS

During the fiscal year, the Waterworks did not amend its budget.

DEBT ADMINISTRATION

At June 30, 2004, the Waterworks has \$553,000 in revenue bonds and debt outstanding, compared to \$675,000 last year. All the Waterworks bonds are revenue bonds.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Albia Municipal Waterworks appointed officials considered many factors when setting the fiscal year 2005 budget, including water main replacements, upkeep of current mains and fees that will be charged. The Waterworks budgeted \$1,686,000 in receipts and disbursements for capital improvements in fiscal 2005. The Waterworks has obtained a grant and a loan from the State of Iowa to fund these capital improvements. The Waterworks budgeted cash balance is expected to increase by \$96,410 at the close of 2005.

CONTACTING THE ALBIA MUNICIPAL WATERWORKS FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Waterworks finances and to show the Waterworks accountability for the money it receives. If you have questions about this report or need additional financial information, contact Bob Russell, Albia Municipal Waterworks Chairman, 120 South A Street, Albia, IA 52531.

Basic Financial Statements

ALBIA MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the year ended June 30, 2004

Functions / Programs Business type activities:	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Water	\$ 1,104,715	685,510	-	-	(419,205)
General Receipts:					
Unrestricted interest on investments					4,080
Miscellaneous					402,615
Sale of assets					4,000
Total general receipts and transfers					410,695
Change in cash basis net assets					(8,510)
Cash basis net assets beginning of year					292,422
Cash basis net assets end of year					<u>283,912</u>
Cash Basis Net Assets					
Restricted:					
Debt service					123,274
Unrestricted					160,638
Total cash basis net assets					<u>\$ 283,912</u>

See notes to financial statements.

ALBIA MUNICIPAL WATERWORKS

Exhibit B

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUND

As of and for the year ended June 30, 2004

	<u>Enterprise Fund Water</u>
Operating receipts:	
Charges for service	<u>\$ 685,510</u>
Total operating receipts	<u>685,510</u>
Operating disbursements:	
Business type activities	<u>596,254</u>
Total operating disbursements	<u>596,254</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>89,256</u>
Non-operating receipts (disbursements):	
Interest on investments	4,080
Miscellaneous - receipts	406,615
Miscellaneous - disbursements	(355,231)
Debt service	<u>(153,230)</u>
Total non-operating receipts (disbursements)	<u>(97,766)</u>
Excess (deficiency) of receipts over (under) disbursements	(8,510)
Operating transfers out	<u>-</u>
Net change in cash balances	(8,510)
Cash balances beginning of year	<u>292,422</u>
Cash balances end of year	<u><u>\$ 283,912</u></u>
Cash Basis Fund Balances	
Reserved for debt service	\$ 123,274
Unreserved	<u>160,638</u>
Total cash basis fund balances	<u><u>\$ 283,912</u></u>

See notes to financial statements.

ALBIA MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

The Albia Municipal Waterworks (Waterworks) is governed by a Board of Trustees appointed by the City Council of the City of Albia, Iowa to operate and maintain the water utility for the City.

A. Reporting Entity

These financial statements present the Albia Municipal Waterworks which is a component unit of the City of Albia, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks has no component units.

B. Basis of Presentation

Government-wide Financial Statements - The statement of Activities and Net Assets reports information on all the nonfiduciary activities of the Waterworks. For the most part, the effect of interfund activity has been removed from this statement. The business type activities rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the Waterworks nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for the proprietary fund. The enterprise fund is reported in the fund financial statements.

The Waterworks reports the following major proprietary fund:

The Water Fund accounts for the operation and maintenance of the City's water system.

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Waterworks are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2. Cash and Pooled Investments

The Waterworks deposits at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Note 3. Revenue Bonds Payable

Annual debt service requirements to maturity for the revenue bonds payable are as follows:

Year Ending June 30,	Water Revenue Bonds	
	Principal	Interest
2005	\$ 128,000	\$ 15,180
2006	134,000	11,499
2007	141,000	7,803
2008	105,000	3,939
2009	45,000	1,035
	<u>\$ 553,000</u>	<u>\$ 39,456</u>

Note 3. Revenue Bonds Payable (continued)

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly cash transfers shall be made to a "Revenue Bond Sinking Fund" for the purposes of making the bond principal and interest payments when due.

The Waterworks was also indebted to First Iowa State Bank. The original amount of the loan was \$15,000. The note is to be repaid in 36 monthly payments in the amount of \$446.20 including interest at 4.50%. During the fiscal year the loan was paid off.

Note 4. Pension and Retirement Benefits

The Waterworks contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Waterworks is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Waterworks' contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$8,366, \$8,243, and \$8,247 respectively, equal to the required contributions for each year.

Note 5. Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use of or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation leave termination payments payable to employees at June 30, 2004 is \$3,593. The liability has been computed based on rates of pay as of June 30, 2004.

Note 6. Office Lease Agreement

The Waterworks and the City of Albia have entered a lease for office space to be occupied by the Waterworks in the Albia City Hall. The lease has a term of thirty years with current rental payments of \$150 per month. The thirty year period expires on December 31, 2011.

The lease provides for the annual negotiation of the amount of the lease payments on the anniversary date of the lease. Rental expense under this arrangement during the year ended June 30, 2004 was \$1,800.

The Waterworks is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 490 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Waterworks' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Waterworks' annual contributions to the Pool for the year ended June 30, 2004 were \$8,550.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Note 7. Risk Management (continued)

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all liability claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a liability claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Waterworks' also carries commercial insurance purchased from other insurers for coverage associated with Workers Compensation. The Waterworks' assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8. Commitment

The Waterworks has signed a contract to purchase a minimum of 3,000,000 gallons of water a month from the Rathbun Regional Water Association, Inc. This contract is effective through year 2039. Currently, the Waterworks buys all of its water for resale from the Rathbun Regional Water Association, Inc. The Waterworks does not have the capability to produce its own water for resale.

Note 9. Accounting Change

Governmental Accounting Standards Board has issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the Waterworks' financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. The government-wide financial statements report the Waterworks' business type activities.

Required Supplementary Information

ALBIA MUNICIPAL WATERWORKS

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - PROPRIETARY FUND

REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2004

	Proprietary Fund Actual	Budgeted Amounts Original	Final to Net Variance
Receipts:			
Use of money and property	\$ 4,080	\$ -	\$ 4,080
Charges for service	685,510	1,232,559	(547,049)
Miscellaneous	402,615	-	402,615
Total receipts	<u>1,092,205</u>	<u>1,232,559</u>	<u>(140,354)</u>
Disbursements:			
Business type activities	<u>1,104,715</u>	<u>1,180,174</u>	<u>75,459</u>
Total disbursements	<u>1,104,715</u>	<u>1,180,174</u>	<u>75,459</u>
Excess (deficiency) of receipts over (under) disbursements	(12,510)	52,385	(64,895)
Other financing sources, net	<u>4,000</u>	-	<u>4,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(8,510)	52,385	(60,895)
Balances beginning of year	<u>292,422</u>	-	<u>292,422</u>
Balances end of year	<u>\$ 283,912</u>	<u>\$ 52,385</u>	<u>\$ 231,527</u>

See accompanying independent auditor's report.

ALBIA MUNICIPAL WATERWORKS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

Other Supplementary Information

ALBIA MUNICIPAL WATERWORKS

Schedule 1

COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUND

As of and for the year ended June 30, 2004

	<u>General</u>	<u>Customer Deposit</u>	<u>Revenue Bond Sinking</u>	<u>Improvement</u>	<u>Total</u>
OPERATING RECEIPTS:					
Charge for services -					
Sale of water to meter customers	\$670,892	\$ -	\$ -	\$ -	\$ 670,892
Sales of water - tank service	360	-	-	-	360
Sale of labor	9,339	-	-	-	9,339
Sale of supplies	4,919	-	-	-	4,919
Total operating receipts -	<u>685,510</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>685,510</u>
OPERATING DISBURSEMENTS:					
Business type activities -					
Water -					
Distribution expenses -					
Labor	63,144	-	-	-	63,144
Tools and equipment repairs	290	-	-	-	290
Truck expense	900	-	-	-	900
Gasoline and oil	1,609	-	-	-	1,609
Supplies	4,203	-	-	-	4,203
Water tests	764	-	-	-	764
Electric	1,040	-	-	-	1,040
Shop fuel	1,659	-	-	-	1,659
Shop telephone	550	-	-	-	550
Purchased services	2,418	-	-	-	2,418
Clothes	2,153	-	-	-	2,153
	<u>78,730</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,730</u>
Distribution outlay -					
Supplies	1,882	-	-	22,106	23,988
Hydrant repairs or supplies	353	-	-	-	353
Equipment	5,859	-	-	-	5,859
Purchased services	347	-	-	-	347
Capital outlay	-	-	-	60,737	60,737
	<u>8,441</u>	<u>-</u>	<u>-</u>	<u>82,843</u>	<u>91,284</u>

ALBIA MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUND

As of and for the year ended June 30, 2004

	<u>General</u>	<u>Customer Deposit</u>	<u>Revenue Bond Sinking</u>	<u>Improvement</u>	<u>Total</u>
OPERATING DISBURSEMENTS (continued) -					
Business type activities (continued) -					
Water (continued) -					
Administration and other expenses -					
Salaries	\$ 60,593	\$ -	\$ -	\$ -	\$ 60,593
Customer service wage	21,763	-	-	-	21,763
Postage	6,501	-	-	-	6,501
Office supplies	5,003	-	-	-	5,003
Office rent	1,800	-	-	-	1,800
Maintenance contracts	4,389	-	-	-	4,389
Telephone	2,660	-	-	-	2,660
Publishing	1,631	-	-	-	1,631
Audit and filing fee	1,287	-	-	-	1,287
Dues	1,305	-	-	-	1,305
Insurance	14,624	-	-	-	14,624
Legal	2,715	-	-	-	2,715
Employee insurance	47,753	-	-	-	47,753
Conventions, meetings, schools	229	-	-	-	229
Sales tax	37,021	-	-	-	37,021
Payroll taxes	20,388	-	-	-	20,388
Employee medical reimbursements	2,257	-	-	-	2,257
Purchased water	194,321	-	-	-	194,321
	<u>426,240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>426,240</u>
Total operating disbursements -	<u>513,411</u>	<u>-</u>	<u>-</u>	<u>82,843</u>	<u>596,254</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>172,099</u>	<u>-</u>	<u>-</u>	<u>(82,843)</u>	<u>89,256</u>

ALBIA MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUND

As of and for the year ended June 30, 2004

	General	Customer Deposit	Revenue Bond Sinking	Improvement	Total
NON-OPERATING RECEIPTS					
(DISBURSEMENTS):					
Interest on investments	\$ 4,080	\$ -	\$ -	\$ -	\$ 4,080
Miscellaneous -					
Collection fee from City	36,185	-	-	-	36,185
Sewer rental collections	329,753	-	-	-	329,753
Landfill charge collections	15,801	-	-	-	15,801
Refunds and other	7,326	-	-	-	7,326
Sale of assets	4,000	-	-	-	4,000
Customer deposits collected	-	13,550	-	-	13,550
Customer deposits disbursed	-	(10,867)	-	-	(10,867)
Sewer rental disbursed to City	(328,607)	-	-	-	(328,607)
Landfill charge disbursed to City	(15,757)	-	-	-	(15,757)
Debt service -					
Principal redemption	(6,917)	-	(122,000)	-	(128,917)
Interest payment	(81)	-	(23,468)	-	(23,549)
Trustee fees	-	-	(764)	-	(764)
Total non-operating receipts (disbursements) -	<u>45,783</u>	<u>2,683</u>	<u>(146,232)</u>	<u>-</u>	<u>(97,766)</u>
Excess (deficiency) of receipts over (under) disbursements	217,882	2,683	(146,232)	(82,843)	(8,510)
Operating transfers in (out)	<u>(191,350)</u>	<u>-</u>	<u>149,350</u>	<u>42,000</u>	<u>-</u>
Net change in cash balances	26,532	2,683	3,118	(40,843)	(8,510)
Cash balances, beginning of year	<u>35,130</u>	<u>68,514</u>	<u>120,156</u>	<u>68,622</u>	<u>292,422</u>
Cash balances, end of year	<u>\$ 61,662</u>	<u>\$ 71,197</u>	<u>\$ 123,274</u>	<u>\$ 27,779</u>	<u>\$ 283,912</u>

See accompanying independent auditor's report.

ALBIA MUNICIPAL WATERWORKS

Schedule 2

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2004

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Water Revenue Bonds	08-01-95	4.10%-5.30%	\$ 315,000
Water Revenue Bonds	08-01-97	4.10%-5.00%	135,000
Water Revenue Bonds	07-01-98	4.00%-4.60%	210,000
Water Revenue Bonds	11-01-01	3.50%	185,000
Water Revenue Bonds	02-13-03	1.90%-2.95%	100,000
Water Revenue Bonds	10-15-03	2.15%-2.55%	265,000

First Iowa State Bank	10-16-01	4.50%	15,000
-----------------------	----------	-------	--------

Date of Issue	Balance Beginning of Year	Issued During Year *	Redeemed During Year *	Balance End of Year	Interest Paid	Interest Due and Unpaid
08-01-95	\$ 220,000	\$ -	\$220,000	\$ -	\$ 5,783	\$ -
08-01-97	75,000	-	75,000	-	1,826	-
07-01-98	150,000	-	15,000	135,000	6,444	-
11-01-01	130,000	-	65,000	65,000	3,412	-
02-13-03	100,000	-	12,000	88,000	2,561	-
10-15-03	-	265,000	-	265,000	3,442	-
Total	<u>\$ 675,000</u>	<u>\$265,000</u>	<u>\$387,000</u>	<u>\$ 553,000</u>	<u>\$ 23,468</u>	<u>\$ -</u>
10-16-01	<u>\$ 6,917</u>	<u>\$ -</u>	<u>\$ 6,917</u>	<u>\$ -</u>	<u>\$ 81</u>	<u>\$ -</u>

* The \$265,000 issued during the year refunded a similar amount of old bonds.
The new lender directly paid off the bondholders in relation to the 1995 and 1997 issues.

See accompanying independent auditor's report.

ALBIA MUNICIPAL WATERWORKS

Schedule 3

BOND MATURITIES

June 30, 2004

Year Ending June 30,	Water Revenue Bonds			
	Issued July 1, 1998		Issued November 1, 2001	
	Interest Rates	Amount	Interest Rates	Amount
2005	4.40%	\$ 15,000	3.50%	\$ 65,000
2006	4.45%	15,000		
2007	4.50%	20,000		
2008	4.55%	40,000		
2009	4.60%	45,000		
		<u>\$ 135,000</u>		<u>\$ 65,000</u>

Year Ending June 30,	Water Revenue Bonds				
	Issued February 13, 2003		Issued October 15, 2003		
	Interest Rates	Amount	Interest Rates	Amount	Total
2005	2.10%	\$ 8,000	2.15%	\$ 40,000	\$ 128,000
2006	2.25%	9,000	2.30%	110,000	134,000
2007	2.65%	6,000	2.55%	115,000	141,000
2008	2.95%	65,000			105,000
2009					45,000
		<u>\$ 88,000</u>		<u>\$ 265,000</u>	<u>\$ 553,000</u>

See accompanying independent auditor's report.

ALBIA MUNICIPAL WATERWORKS

Schedule 4

WATER STATISTICS

June 30, 2004

	<u>2004</u>
Meters in service	1,684
Gallons placed in service	122,087,000
Amount metered for sale	93,449,015
Flushings, hydrants, fires, leaks and city use (estimated)	28,637,985

See accompanying independent auditor's report.

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
103 BENTON AVENUE EAST
ALBIA, IOWA 52531

(641) 932-3295

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees
Albia Municipal Waterworks

We have audited the financial statements of the Albia Municipal Waterworks, component unit of the City of Albia, Albia, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated July 1, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Albia Municipal Waterworks financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that were required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Albia Municipal Waterworks operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Albia Municipal Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Albia Municipal Waterworks internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Albia Municipal Waterworks and other parties to whom the Albia Municipal Waterworks may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Albia Municipal Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP
Certified Public Accountants

July 1, 2004

ALBIA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part I: Findings Related to the Financial Statements

INSTANCES OF NONCOMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

No matters were noted.

Part II: Other Findings Related to Statutory Reporting

- II-A-04 Official Depositories - A resolution naming official depositories has been approved by the Waterworks. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget - Waterworks disbursements during the year ended June 30, 2004, did not exceed the amounts budgeted.
- II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-04 Travel Expense - No disbursements of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.
- II-E-04 Business Transactions - No business transactions between the Waterworks and Waterworks officials or employees were noted.
- II-F-04 Bond Coverage - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-04 Board of Trustee Minutes - No transactions were found that we believe should have been approved in the trustee minutes but were not.
- II-H-04 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Waterworks investment policy were noted.
- II-I-04 Revenue Bonds - The Waterworks has complied with the provisions of the revenue bond indentures.